



Economic Advisory Council April 2022 Meeting Minutes

April 8, 2022

10 am – 12 pm

Virtual Meeting

Agenda

Time	Activity / Topic
9:45 am	Webex Conference Line Opens
10 am – 10:05 am	Introduction and Welcoming Remarks CEO Alice Albright
10:05 am – 10:10 am	Overview of Meeting MCC response to EAC recommendations Mark Sundberg, Chief Economist, Economic Analysis
10:10 am – 11:00 am	Improving Policy and Institutional Reform (PIR) within MCC's Core Infrastructure Work Chair: Shanta Devarajan Discussants: Stefan Dercon and Rema Hanna
11:05 am – 11:50 am	Broader Efforts to Address PIR through Compacts and Thresholds and Measuring PIR Benefits Chair: Shanta Devarajan Discussants: Celestin Monga and Phil Keefer
11:50 am -11:55 am	Administrative Next Steps Mesbah Motamed, Economist and Federal Designated Officer
11:55 am – 12:00 pm	Opportunity for Public Comment
12:00 pm	Meeting Adjourns

Call to Order, Introduction and Welcoming Remarks, and MCC

Response to EAC Recommendations

Following the call to order, Alice Albright, MCC Chief Executive Office, offered welcoming and introductory remarks. MCC Chief Economist Mark Sundberg provided an overview of the meeting and described MCC's response to EAC recommendations from the previous November 2021 meeting.

EAC Chairperson Shanta Devarajan opened the discussion with a brief introduction on MCC's efforts to better integrate policy and institutional reform (PIR) into its investments, both as a complement to its infrastructure projects and as a stand-alone activity. Achieving successful and long-lasting PIR is at once difficult and vital to MCC's mission. A [topic note](#) circulated in advance served as additional background for discussion.

- **Securing ownership by government and private sector leadership.** EAC members stressed the importance of MCC securing the cooperation and support of influential actors in government and the private sector whose political interests and incentives align with development outcomes. In the absence of such buy-in, reforms often fail to take root and may amount to little more than window-dressing. Thus, thinking both politically and economically is key to driving successful PIR efforts and early-stage political economy analyses can inform MCC of the landscape of actors and interests that surround a potential intervention. Whereas the economic burdens of costly electricity or food subsidies may not move the elites to enact PIR, the threat to social stability, and the attendant implications for political power, could prove more decisive. In light of this, development agencies may consider how they can help so-called elites “gamble on development” and take risks in the interest of long-term development.
- **Building popular support for PIR.** To raise the chances of PIR success, EAC members encouraged greater use of media and other tools—e.g., documentaries, outreach campaigns, local news coverage—to communicate the PIR elements of a project to the public. This informs voters, gains popular support for the intervention, and raises expectations among the public, all of which heighten government accountability. Similarly, finding support for PIR efforts at local levels, in contrast to more traditional national actors, may pay greater dividends for investments with a distinct geographical focus. Parallel to this, MCC's stakeholder outreach efforts should target actors and entities whose economic incentives naturally align with the larger constituencies of interest. For example, if MCC has identified rural farmers as a beneficiary of interest, communicating with the sectors that interact and do business with them, e.g., agriculture input suppliers, traders, etc. can amplify farmers' voices and their stake in the PIR.
- **Addressing PIR early-on.** Early attention to PIR in compact design is key to understanding the institutional context, forging consensus across stakeholders, and developing an understanding of the incentives that motivate different stakeholders. All of these are needed to inform program design for effective reform. It is important to undertake early political economy analysis and refine it as program objectives and core projects become more clearly defined.
- **Results-based finance (RBF) potential as an MCC instrument.** Some EAC members supported further exploration of RBF in MCC compacts, noting features of the instrument. RBF reimburses countries on the basis of verifiable results, reduces the tension between country ownership and development results, and relies on home-grown systems to achieve results donors seek. This helps to address the principal-agent problem and reduces reliance on conditionality. RBF can support diverse, discrete, objectives across multiple donor and country interests, such as connecting low-income households to the power grid, particularly last-mile connections. But RBF is less well-

suited to areas where interests may diverge, such as limiting greenhouse gas emissions, or investments that are large, such as port construction. RBF can also apply to PIR itself, such as improving public-investment or -financial management, where more robust metrics for measuring system performance are now widely available, e.g., Public Investment Management Assessments (PIMA). Members suggested exploring reimbursement for measurable improvements in such indicators. Ultimately, RBF may help reveal where government priorities lie, illuminating opportunities for fruitful engagement. A preliminary analysis of the World Bank's experience with RBF ("Program for Results") raised a note of caution, inasmuch as the results ("Disbursement Linked Indicators") were sometimes watered down (to ensure financing) so much that they resembled inputs.

- **Build effective PIR into infrastructure projects.** EAC members commented on the desirability of coupling and incentivizing PIR measures with infrastructure investments. Tying these together through conditionality may allow leveraging MCC's funds to achieve longer term development goals, but it may also risk destabilizing the investment if the reforms prove too costly politically, or if elite buy-in goes missing. The challenge is to align incentives and to craft the right balance of 'carrot and stick'. One speaker noted useful strategies for promoting PIR in infrastructure projects, where MCC is well placed and experienced. They argued for linking PIR to addressing the crises that have disrupted the 'political equilibrium', for example promoting value for money in procurement, regulatory reforms, or human resource reforms in response to fiscal crisis and out-of-control subsidies. *Conditions precedent* can be important tools in large compacts, linked to core infrastructure investments. One speaker thought that PIR should be separate from infrastructure investments because the former requires genuine public support whereas the latter can be implemented directly by government. Another speaker noted that PIR should not be divorced from infrastructure projects, especially large projects, noting examples where this has been very successfully managed.
- **Innovating around Threshold Programs.** EAC members noted that MCC's Threshold Programs could play an important role in support of PIR as they offer an opportunity to innovate around reform initiatives. These innovations could involve testing alternative financing approaches, such as RBF; supporting regional integration through PIR related to cross-border trade, transport and power protocols; and supporting innovative experiments to develop a knowledge base. A few members noted that regional integration efforts might be easier when trade is involved while also cautioning about the demanding needs related to cross-country coordination with multiple entities.
- **China's investments and PIR.** Members of the EAC raised the question of China's infrastructure aid and their role in shaping the policy and institutional environment. Chinese-financed investments, which according to several recent research studies do affect the recipient countries' growth and external indebtedness, do not appear to address PIR issues directly. But evidence suggests they can adversely affect the governance landscape, possibly entrenching the status quo and/or aligning incentives away from more environmentally and socially optimal outcomes. MCC should be aware of the choices partner countries face when considering between two very different models of engagement and emphasize advantages of the MCC approach.
- **Coordinating infrastructure and PIR investments with other donors.** EAC members noted the importance of MCC coordinating with other donors to integrate complementary reform efforts, and avoid support efforts that might even operate at cross purposes. One EAC member raised the possibility of MCC investing in PIR coordinated with Chinese-financed infrastructure which generally does not address PIR, but acknowledged this would be difficult in the current geopolitical environment. It was also noted that multilateral development banks (e.g., the World Bank) have been making substantial investments in PIR with empirical results showing impacts. MCC might

benefit from coordinating with such efforts to determine how the agency could support reforms most effectively.

- **Differences in the Asian and African experience with PIR.** One EAC member noted that PIR in East Asia only moved under conditions that were sufficiently supported by domestic elites. Donor support was often not instrumental. In Africa and elsewhere, experience suggests PIR efforts are best served by multiple partners, with a consensus across a coalition of donors as well as with a domestic constituency. Different dimensions of public investment management (IMF's PIMA scoring tool) can reveal how different countries perform, highlighting gaps and weaknesses in capacity. Building community level support for infrastructure projects with full transparency, possibly collaborating with the "Open Government Partnership" initiative, might prove transformative.
- **Sharpening evaluation of PIR measures.** One EAC member raised issues regarding gaining more insight from MCC evaluations, including on PIR interventions. MCC is a leader in evidence building particularly through impact and performance evaluations. However, evaluation and research questions are often posed after compacts are signed making it more difficult to measure baselines and build in experiments. Questions were posed as to whether MCC can more systematically evaluate the political economy and success of *conditions precedent* (conditional prior actions) used in compact development to understand the attributes of success. Another question raised was whether there are situations where conditions may prove destabilizing.
- **Caution in some areas of PIR.** One EAC member posed the question of how far or deep PIR activities should really go. Some areas, such as civil service reform, are highly sensitive. Donors cannot drop into a country and expect to fully understand the institutions on the ground. An assessment of broader institutional issues related to inclusion and corruption is important. And evaluations of results cannot adequately capture the impact and benefits of PIR. Often, avoiding bad outcomes (e.g., reward systematic corruption) is better than achieving something good.

Opportunity for Public Comment and Adjournment

A member of the public stated that MCC is a small part of the donor community, its model is unique and valuable, and that it should not aim to mimic the operations of larger multi-lateral development banks.

An additional member highlighted the equal importance of PIR and infrastructure investments and stressed the need for identifying the appropriate evaluation framework.

Members Present:

- Shantayanan Devarajan, Georgetown University
- Shahrokh Fardoust, College of William and Mary
- Stefan Dercon, University of Oxford
- William Masters, Tufts University
- Rema Hanna, Harvard University
- Ravi Kanbur, Cornell University
- Raquel Fernandez, New York University
- Celestin Monga, Harvard University
- Nora Lustig, Tulane University

- Chris Blattman, University of Chicago
- Homi Kharas, Brookings Institution
- Alan Gelb, Center for Global Development
- Augusto de la Torre, Columbia University
- Louise Fox, University of California-Berkeley
- Michael Woolcock, World Bank
- William Martin, International Food Policy Research Institute
- Solomon Hsiang, University of California-Berkeley
- David Robalino, IZA

Members Not Present:

- Martin Ravallion, Georgetown University
- Jeff Vincent, Duke University
- Allen Blackman, Inter-American Development Bank
- Emmanuelle Auriol, Toulouse School of Economics
- David Dollar, Brookings Institution
- Paul Smoke, New York University
- Vinod Thomas, National University of Singapore

Invited Attendees:

- Matt Andrews, Harvard University
- Phil Keefer, Inter-American Development Bank